

G-004/M-91-142 ORDER GRANTING VARIANCE FOR ONE YEAR

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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In the Matter of Great Plains
Natural Gas Company's Petition
to Recover the Costs Associated
with Storage Service through its
Purchased Gas Adjustment

ISSUE DATE: June 12, 1991

DOCKET NO. G-004/M-91-142

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YEAR

PROCEDURAL HISTORY

On December 24, 1990, Great Plains Natural Gas Company (Great Plains or the Company) filed its December Purchased Gas Adjustment (PGA) report. In its report Great Plains indicated that it had contracted for Firm Deferred Delivery Storage Service (FDD) with Northern Natural Gas Company (Northern) and was including associated carrying costs in its PGA.

After correspondence with the Department of Public Service (the Department) regarding costs of the gas storage service, Great Plains filed additional cost information on March 4, 1991.

On April 3, 1991, the Department filed its Report and Recommendation. The Department recommended that Great Plains be allowed to recover its carrying costs in the Company's PGA.

The matter came before the Commission on May 14, 1991.

FINDINGS AND CONCLUSIONS

FDD and Carrying Costs

Firm Deferred Delivery Storage Service is a gas storage service offered by Northern to gas utilities on its system, including Great Plains. Through the use of FDD, Great Plains and other local distribution companies (LDCs) are able to buy gas supplies during summer months, when prices are usually low, and utilize the gas during higher-priced winter heating months. The gas which is purchased under FDD contract is stored until use in underground facilities such as depleted gas/oil formations, salt domes or aquifers.

In previous unrelated dockets, the Commission has found that the wise use of FDD supplies in a gas supply portfolio can be of benefit to ratepayers¹. FDD can increase flexibility and reliability of supply, since the LDCs can shop a variety of suppliers over a large portion of the year. Prices of FDD can be more favorable and less subject to weather-driven swings than prices of other types of gas supply.

LDCs incur carrying costs when they choose FDD over other means of obtaining gas supply. Carrying costs represent the potential earned return on capital which is lost when the money is tied up in storage inventories. In effect, the LDCs are "financing" their purchase and storage of the FDD supply with their own use of capital.

Because the Commission has found that the judicious use of FDD supply can be of benefit to Minnesota ratepayers, the Commission will as a matter of policy encourage well-designed gas purchase programs which provide incentives for FDD use. Allowing LDCs to recover carrying costs associated with the use of contract storage service would be part of such a plan. If LDCs were not allowed to recover their carrying costs, they would be penalized for their choice of this means of supply.

Great Plains has asked to recover its carrying costs through its PGA. The Commission finds that this is an appropriate means of recovery. The use of FDD is often associated with wide variability of gas price and availability of storage. This variability lends itself well to recovery through monthly PGA adjustments. Recovery through the PGA is also more suitable than recovery through rates, because the fluctuation in gas prices and year-to-year availability would spell a risk of underrecovery through rates.

The Variance

Great Plains has requested recovery of carrying costs through a variance to Minn. Rules, Part 7825.2700, Purchase Gas Charges, Automatic Adjustment. This rule allows an automatic adjustment of charges to billings to reflect changes in "commodity-delivered gas cost" or "demand-delivered gas cost." Great Plains' requested variance would extend the automatic adjustment to the recovery of gas storage carrying costs.

¹ See, for example, In the Matter of a Petition from Northern States Power Company for a Variance to the Purchase Gas Charges, Automatic Adjustment Rule for Recovery of Carrying Costs Associated with Gas Storage Service, Docket No. G-002/M-90-630, ORDER GRANTING VARIANCE FOR ONE YEAR (April 4, 1991).

Minn. Rules, Part 7830.4400 provides that a variance may be granted if the following criteria are met:

1. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
2. Granting of the variance would not adversely affect the public interest;
3. Granting of the variance would not conflict with the standards imposed by law.

The Commission finds that Great Plains has fulfilled the criteria for the granting of a variance. Strict enforcement of the PGA rule to preclude carrying cost recovery would impose an excessive burden upon the utility. The only alternative means of recovery, through rates, would greatly delay recovery and pose a substantial risk of underrecovery. Granting of the variance would not adversely affect the public interest. Ratepayers would in fact be benefitted by lower rates reflecting the utility's savings. Finally, the variance would not conflict with the standards imposed by law. Carrying costs are a direct cost of natural gas. Recovery of carrying costs is therefore possible under Minn. Stat. § 216B.16, subd. 7, which lists direct costs of natural gas as one of the three types of costs for which the Commission may allow automatic adjustment charges.

Fulfillment of the variance criteria holds equally true for Minn. Rules, Part 7825.2900, subd. 3. This rule requires a utility to make a refund when there is an error in the PGA that is greater than 5% of the corrected adjustment charge. Even if Great Plains' recovery of gas storage carrying costs since December 1, 1990 were construed as an "error" in its PGA, the utility would be eligible for a variance to this rule.

Application of the Variance

Great Plains has requested recovery of its carrying costs from December 1, 1990, when it began including such costs in its PGA. The Commission finds that sufficient benefit has accrued to ratepayers to merit allowing recovery of the costs from the date the Company requested. The Company provided figures which showed that the total cost of gas for customers during the 1990-91 heating season was lowered significantly by the use of FDD. These figures included the recovery of carrying charges through the PGA. Because the use of FDD during the 1990-91 heating season has benefitted ratepayers, the Commission will allow the recovery of carrying costs associated with FDD from December 1, 1990.

Carrying Charges Set at Prime Rate

The Commission finds that Great Plains' request to have carrying charges set at the prime rate of interest is reasonable and will be allowed. Prime rate is defined in Minn. Rules, Part 7825.2400, Subp. 16 as follows:

"Prime interest rate" means the average of the daily prime lending rates offered to preferred customers at the largest bank in the ninth federal reserve district during the period. The largest bank is that bank with the greatest total outstanding deposits as of the end of the calendar year preceding the notice of change in rates.

ORDER

1. Great Plains Natural Gas Company is granted a variance from Minn. Rules, Part 7825.2700, to allow the Company to recover carrying charges associated with contract underground gas storage through the Company's PGA. The variance shall be in effect from December 1, 1990, through one year from the date of this Order. Carrying charges shall be set at the prime rate of interest as set out in the body of this Order.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)